

Message Text

LIMITED OFFICIAL USE

PAGE 01 ROME 04372 171601Z

54

ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 INRE-00 /081 W

----- 049128

O R 171425Z MAR 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 6412

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

LIMITED OFFICIAL USE ROME 4372

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: GOI CONTEMPLATES NEW MEASURES IN FACE OF FURTHER LIRA
DEPRECIATION

REF: A. ROME 4351, B. ROME 4135

1. SHARP DROP OF LIRA IN EXCHANGE MARKETS ON MARCH 15
TO 826 LIRE PER DOLLAR AND ON MARCH 16 TO 842 PER DOLLAR IS
CAUSING GREAT UN-EASE BOTH IN EXCHANGE MARKET AND IN GOVERNMENT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ROME 04372 171601Z

AND CENTRAL BANK CIRCLES. WHILE DROP IN FRENCH FRANC, STERLING

AND OTHER WEAK CURRENCIES HAS CLEARLY HELPED TO FORCE LIRA DOWN, BASIC LACK OF CONFIDENCE IN PRESENT MINORITY GOVERNMENT AND UNCERTAIN ITALIAN POLITICAL AND ECONOMIC PROSPECTS HAS MADE ALMOST ANY EXCHANGE RATE CREDIBLE IN SHORT-TERM. (AS OF LATE MORNING MARCH 17 LIRA WAS TRADING AGAINST DOLLAR AT AS MUCH AS 842-854 LIRE PER DOLLAR.)

2. FLIGHT FROM LIRA HAS ALREADY FORCED MONETARY AUTHORITIES TO TAKE SERIES OF RESTRICTIVE MONETARY MEASURES (E.G., REFTEL B) WHICH HAVE HAD EFFECT OF DOUBLING OF SHORT-TERM INTEREST RATE LEVELS SINCE WITHDRAWAL OF BANK OF ITALY FROM EXCHANGE MARKET ON JANUARY 21. LATEST DROP IN LIRA HAS ALSO ACCELERATED GOI CONSIDERATION OF NEW FISCAL MEASURES. ON NIGHT OF MARCH 16 MINISTERIAL GROUP MET WITH PRIME MINISTER TO CONSIDER NEW TAX PACKAGE. REPORTEDLY PACKAGE WOULD INCLUDE 1,500 BILLION LIRE IN ADDITIONAL TAX REVENUES TO REDUCE VERY LARGE CASH BUDGET DEFICIT. OF TOTAL, 400 BILLION WOULD REPORTEDLY RESULT FROM NEW ESTIMATE OF TAX COLLECTIONS UNDER EXISTING TAX LAWS. REMAINING AMOUNT-OF 1,100 WOULD BE RAISED ABOUT HALF FROM INCREASE (POSSIBLY TEMPORARY) IN TAX ON GASOLINE AND HALF FROM INCREASES IN OTHER INDIRECT TAXES SUCH AS VALUE ADDED TAX ON MEAT AND OTHER "LUXURY" PRODUCTS (ESPECIALLY IMPORTS), CIRCULATION TAX ON AUTOMOBILES WITH LARGE ENGINE DISPLACEMENTS, AND MANUFACTURING TAX ON ALCOHOLIC BEVERAGES (EXCEPT WINE). ANOTHER MEETING OF MINISTERS IS SCHEDULED FOR LATE MARCH 17, AT WHICH TIME DECISION ON TAX PACKAGE MAY BE ANNOUNCED.

3. DURING TREASATT TALK WITH TREAS MIN DIRECTOR GENERAL PALUMBO ON MARCH 16, PALUMBO ALSO HINTED THAT, NOT ONLY WAS GOI DISCUSSING WAGE RATE RESTRAINT WITH LABOR UNIONS, BUT IT WAS ALSO CONSIDERING OTHER (UNSPECIFIED) MEASURES IN THIS FIELD.

4. COMMENT. WHILE EMBASSY HAS NOT MADE RECENT CALCULATIONS OF EXTENT TO WHICH LIRA DEPRECIATION HAS COMPENSATED FOR RELATIVELY HIGHER INFLATION RATE IN ITALY THAN IN OTHER COUNTRIES, BOI SOURCES LAST WEEK AND EARLIER EMBASSY ESTIMATES SUGGEST THAT PRESENT LEVEL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ROME 04372 171601Z

OF EXCHANGE RATES SHOULD MAKE ITALIAN EXPORTS EXTREMELY COMPETITIVE. IF THIS RESULTS IN IMPROVEMENT IN CURRENT-ACCOUNT, THEN THERE COULD BE SOME RECOVERY OF LIRA LATER IN THE YEAR, ALSO DEPENDING ON POLITICAL SITUATION. (SEE REFTEL B FOR DISCUSSION OF BALANCE OF PAYMENTS SCENARIO FOR 1976.) ON OTHER HAND, UNLESS UNDERLYING PROBLEMS OF LARGE BUDGET DEFICITS AND EXCESSIVE WAGE RATE INCREASES ARE DEALT WITH, LIRA WILL CONTINUE TO BE CHRONICALLY WEAK IN EXCHANGE

MARKETS AND INFLATIONARY PROBLEMS WILL PERSIST AND
PROBABLY ACCELERATE. VOLPE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, POLICIES, ECONOMIC REPORTS, FOREIGN EXCHANGE RATES, CURRENCY STABILITY
Control Number: n/a
Copy: SINGLE
Draft Date: 17 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME04372
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760100-1053
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760351/aaaabsxo.tel
Line Count: 117
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 ROME 4351, 76 ROME 4135
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2004 by CollinP0>; APPROVED <28 JUL 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI CONTEMPLATES NEW MEASURES IN FACE OF FURTHER LIRA DEPRECIATION
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006